

DECEMBER 31, 1984 THREE DOLLARS

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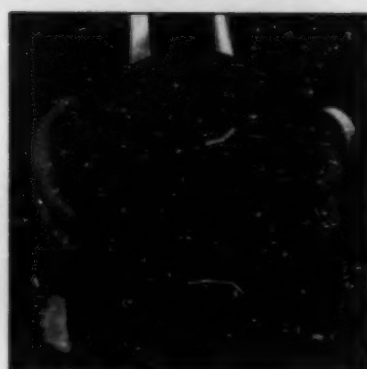
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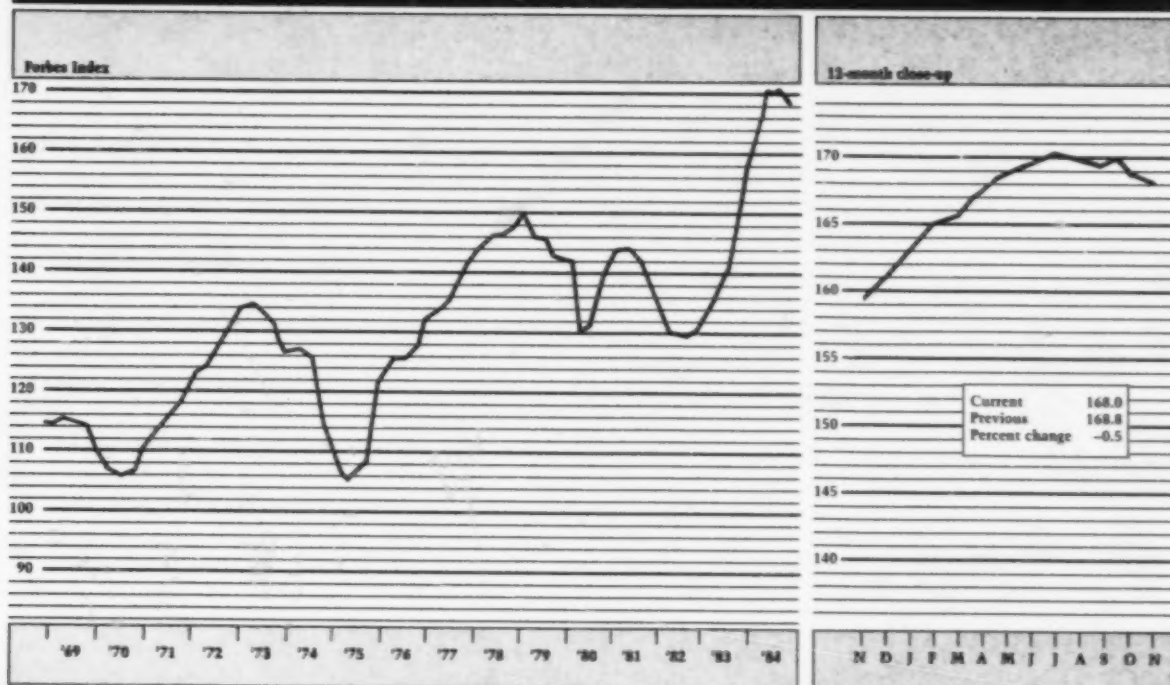
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Cover illustration by: Patrick McDonnell

The Forbes Index



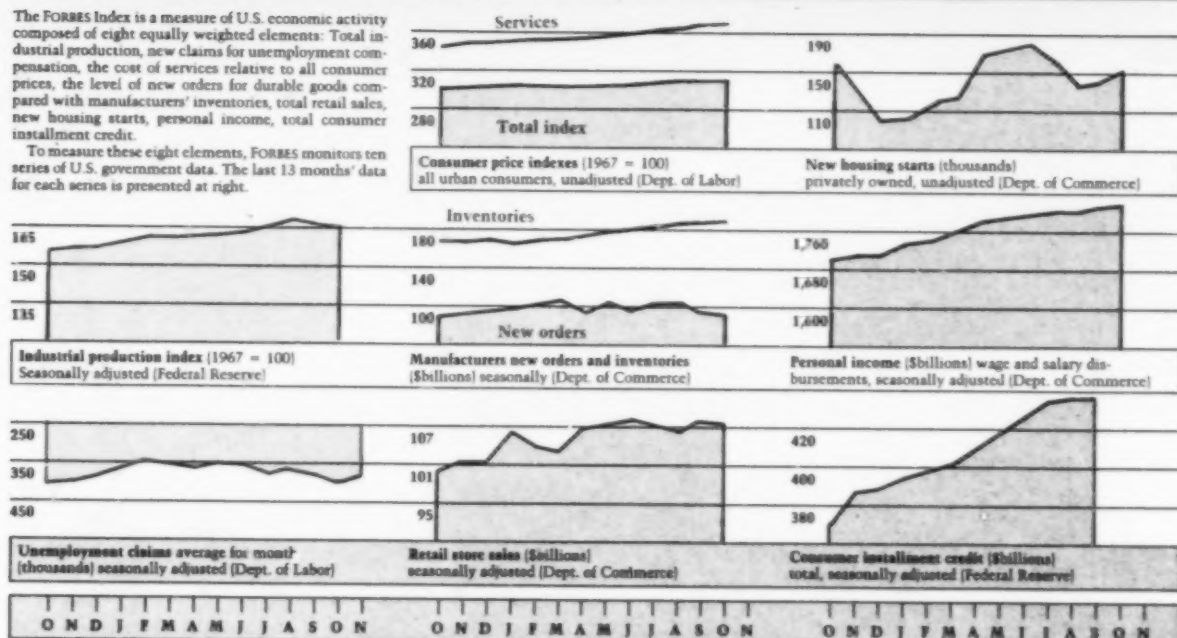
The slowdown is real. The Forbes Index again registered a 0.5% decline. The culprit is a 0.9% rise in manufacturers' inventories—to a record high. In calculating the Forbes Index, the most recent inventory figure is compared to manufacturers' new orders for the past three months, and current numbers show a 2.3% decline in the three-month moving average of new orders. Further evidence of a

potential problem is inventory accumulation: The latest three-month figure for new orders is 7.7% higher than the three-month moving average figure of a year ago, and warehouses are holding some 11.7% more inventory than they did then. New unemployment claims dropped 4.9% in November. But if current inventory isn't sold soon, unemployment claims may begin to rise again.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



Source: Bureau of Economic Analysis

Nomura Securities is now bigger than Merrill Lynch. The Japanese brokers are coming on strong in the U.S. and worldwide.

A yen for new markets

By Richard Phalon

ARE THE "big four" Japanese brokerage firms doing in international finance what Toyota and Nissan have done in autos? Not quite, but they are cutting a wider and wider swath there. Just look at how the huge British Telecommunications offering got divvied among underwriters. Once bit players in international finance, the Japanese grabbed a major piece of this nearly \$5 billion deal.

Brit Telecom's bankers allotted a Japanese syndicate headed by Nomu-

ra Securities Co. 180 million ordinary shares—about 6% of one of the hottest stocks to come along in years. The Japanese slice was exactly the same size as the one parceled out to an American syndicate under the prestigious lead of Morgan Stanley.

"The interesting thing is that the Japanese got as much stock as we did, even though we represent 55% of the world's equity market and they represent only 18% of it," says Robert Cooney of First Boston. This is significant because it recognizes that Japanese brokers now have distribution

clout beyond their native shores.

A lot of heft and hustle lies behind that recognition. With a net worth of more than \$2 billion, Nomura is the world's biggest broker—bigger than Merrill Lynch and, at the moment, a good deal more profitable (see table).

Like Nomura, other members of the big four—Daiwa Securities, Yamaichi Securities and Nikko Securities—are earning big profits this year from commissions on heavy trading volume that has propelled the Tokyo Stock Exchange to record highs. Big profits have come also from a hard sell on U.S. blue chips in Japan. Nomura, for example, sold some 2.2 million shares of IBM to Japanese investors in a major push last year.

That effort, according to Akira Shimizu, president of Nomura's U.S. operations, was followed by a brisk two-month campaign this summer when the New York subsidiary moved about 1.5 million shares of GE into Tokyo. "With a distribution system as big as ours," says Nomura International's Brian Fernandez, "you have to deal in size."

The Japanese brokers, of course, are the beneficiaries of a society that saves so much it has capital to export in spite of horrendous government deficits and a high rate of investment at home. The brokerage firms have helped channel a lot of that money



Nomura's Shimizu
These days the clout is international.

Jim Paatz/Photo Group

overseas in search of much higher returns. Top-grade Japanese corporates yield little more than 7%.

The old-line names that dominate the U.S. investment banking business—First Boston, Morgan Stanley and Salomon, among others—are still the names to beat in Europe, but the Japanese are gaining. Nomura now ranks number 11 among the top lead or co-lead underwriters in the \$75 billion Euro-bond market. Daiwa and Nikko rank 18 and 27, respectively. They operate not only in the traditional outlets of Tokyo, Hong Kong and Singapore but also in New York, London, Frankfurt and Zurich.

Look at the \$1 billion in four-year notes the U.S. Treasury put out in October. The special offering was targeted mainly at foreigners, but Nomura and Daiwa alone snapped up almost half of it. The appeal: about 4.5 points more than yields on comparable Japanese maturities.

The Japanese are not finding international finance a pushover, however. For a long time, thanks to Japanese government restrictions, they had the fat Euroyen markets—yen-denominated securities sold outside Japan—as a cozy private preserve. But, under foreign pressure and because of domestic need, the underwriting business has been opened to outsiders. As Nomura's Shimizu says, "We generate quite a lot of business in Europe, so we invite Salomon, Goldman, Sachs and the other major American underwriters in. When they have

The big eight

Japanese brokers now rank well up in world pecking order. Huge capital positions give them the muscle to deal with the best.

Firm	Net worth 9/30/84	Estimated fiscal 1984 revenues (millions)	Estimated fiscal 1984 net income
Nomura	\$2,291 ¹	\$997 ¹	\$185 ¹
Merrill Lynch	2,021	6,000	77
Nikko	1,255E	990	155
Salomon Brothers	1,188 ²	3,100	321
Daiwa	1,184E	1,100	153
Wanamaker	940	1,400	108
Yamashita	890E	890	120
Dean Witter Reynolds	623 ²	1,500	37

¹All Nomura figures are first-half fiscal 1984, as of Mar. 31, 1984.

²As of June 30, 1984. E: Estimated. Sources: Perrin Long.

³Super Analytical; Japanese companies supplied own estimates.

something, they invite us in."

The New York outposts of the Japanese firms have been among the biggest beneficiaries of that time-honored back-scratching formula. As Tokuro Isoda, president of Daiwa Securities America, Inc., notes, for years their main mission was to sell Japanese stocks to American institutional investors and U.S. stocks to the Japanese. The American side of the equation was a pretty hard sell, partly because the depositary receipt market in some Japanese stocks here tends to be thin (see box).

Further, because Japanese corporations did comparatively little financing here, the New York subsidiaries of the big four really didn't have all that much collateral to bring to the underwriting parties. Thus, for years Japa-

nese brokers languished near the bottom of the syndicate tombstone ads that define the pecking order of the tight little world of Wall Street's investment bankers. Prestige aside, placement below the salt meant the Japanese often got modest allotments of the kind of new offerings they needed to get U.S. institutional investors to open their doors a bit wider.

All that is changing now, thanks to the enormous clout the Japanese have amassed in the rest of the world. "They used to be between 20% and 25% of our domestic syndicates," says Eugene D. Atkinson, manager of Goldman, Sachs International's Tokyo branch, "and last year I would guess that they were in over 50% of them."

Like their colleagues in the auto business, many Wall Streeters complain about the level of the playing field: open markets on the U.S. side, tightly restricted markets on the other. But it is harder for the Japanese to play by two sets of rules in the international finance game. Some of the financial barriers are coming down now, partly because of what the Japanese call *gaiatsu*—foreign pressure. There are major internal forces working for liberalization of the Japanese markets, too, so it's a good bet that U.S. investment houses will become a major presence in Kabuto-cho, Tokyo's Wall Street. But by then they will be finding the Japanese increasingly tough competitors elsewhere in the world, the U.S. included. ■

A piece of the action

The Tokyo Stock Exchange sometimes follows the New York market, but it has lately been prosperously out of sync. Tokyo has been clicking off a series of new highs, while the Big Board has been sunk in an indecisive funk.

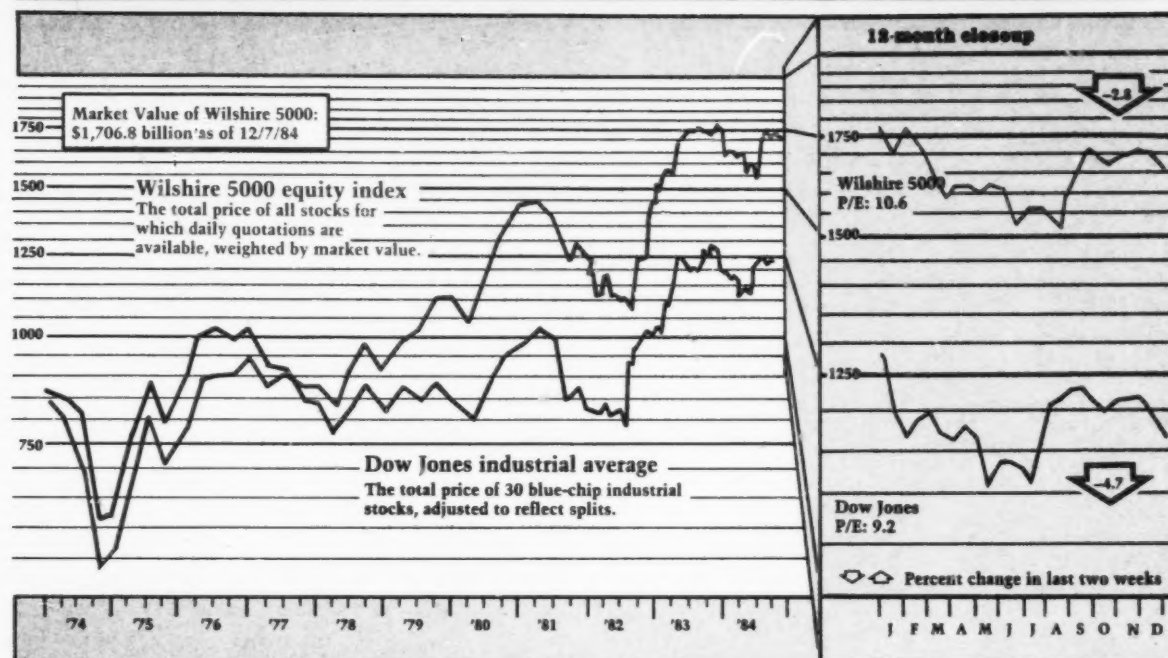
The big play in Tokyo lately has been in banks and finance companies, a trend that followed a big runup in drug companies working on anticancer agents of one kind or another. Such switches are typical of the Tokyo exchange, which, at its most manic, tends to be "a broker-driven theme and concept market," says Timothy Schilt, president of the Japan Fund.

That doesn't mean any shortage of such fast-growing blue chips as Matsushita, Sharp or NEC Corp. for long-term investors. It does mean Tokyo tends to be more volatile than New York, often because of the recurrence of what is known by the local crowd as a "ramp"—clusters of traders and quick-turn speculators hopping aboard (and off) the same concept at the same time.

How to get in on the action? The easy way is through the 125 or so Japanese stocks traded in New York—mainly over-the-counter, about 7 on the Big Board—under American Depositary Receipts. Among the most active are blue-chip issues such as Canon, Sony and Toyota, which can be bought and sold through any broker here at standard commission rates. Some ADRs tend to be thinly traded and thus short on liquidity. The big names, however, move in depth. "It's not unusual for us to do a half-million-share order in a stock like Matsushita or Sony," says Nomura's Brian Fernandez.

The alternative is to go directly to the Tokyo market by setting up a yen account through one of the big four or through one of the six U.S. brokers licensed to do business in Japan. The advantage is that you get a pick of the entire universe of Japanese stocks rather than the smaller cosmos traded under ADRs. One disadvantage: fixed commissions and no competitive discounts for institutions and individuals.—R.P.

The Forbes/Wilshire 5000 Review



A confused market keeps stumbling. Wall Street is still trying to sort out the Treasury Department tax proposals and to figure out how many of the proposed changes will actually become law. But first reactions are gloomy. During the last two weeks, the 5,600-stock Wilshire index fell by 2.8%. For the month the Wilshire is off 3.5%, and the Dow industrials declined 4.6%. But one Dow stock, Union Carbide, lost 12 points in the week following the gas leak at its Indian insecticide plant.

During this same period, IBM, another Dow issue, dropped more than 4 points. The average NYSE share, meanwhile, outpaced the Wilshire and fell only 2.7% for

the two-week period and 3.3% for the four-week period.

The yardsticks below show that over the past 52 weeks speculative issues have underperformed their more conservative counterparts by a wide margin. High-volatility shares declined 18.2%, while low-volatility shares advanced 9.4%. Since election day, more-speculative issues have been hit extremely hard. High-volatility shares declined 9% over the past four weeks, while low-volatility shares are off only 1.2%. Shares with P/E's over 25 fell 8.1%, while those with multiples under 5 declined only 2.7%. Stocks priced under \$4 fell 9.1%, vs. a 2.6% decline in shares selling for over \$40.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-3.5	-3.2	-4.6	-3.3	-4.7	-4.2
in last 52 weeks	-4.5	-0.9	-7.7	-2.0	-9.1	-14.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-3.5	-7.2	-9.0	-1.2	-8.1	-2.7	-1.2	-6.1	-7.7	-1.8	-2.6	-9.1
in last 52 weeks	-2.9	-10.3	-18.2	9.4	-21.8	4.9	6.6	-15.3	-13.6	6.8	1.4	-20.4

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 12/7/84. Prepared by Wilshire Associates, Santa Monica, Calif.

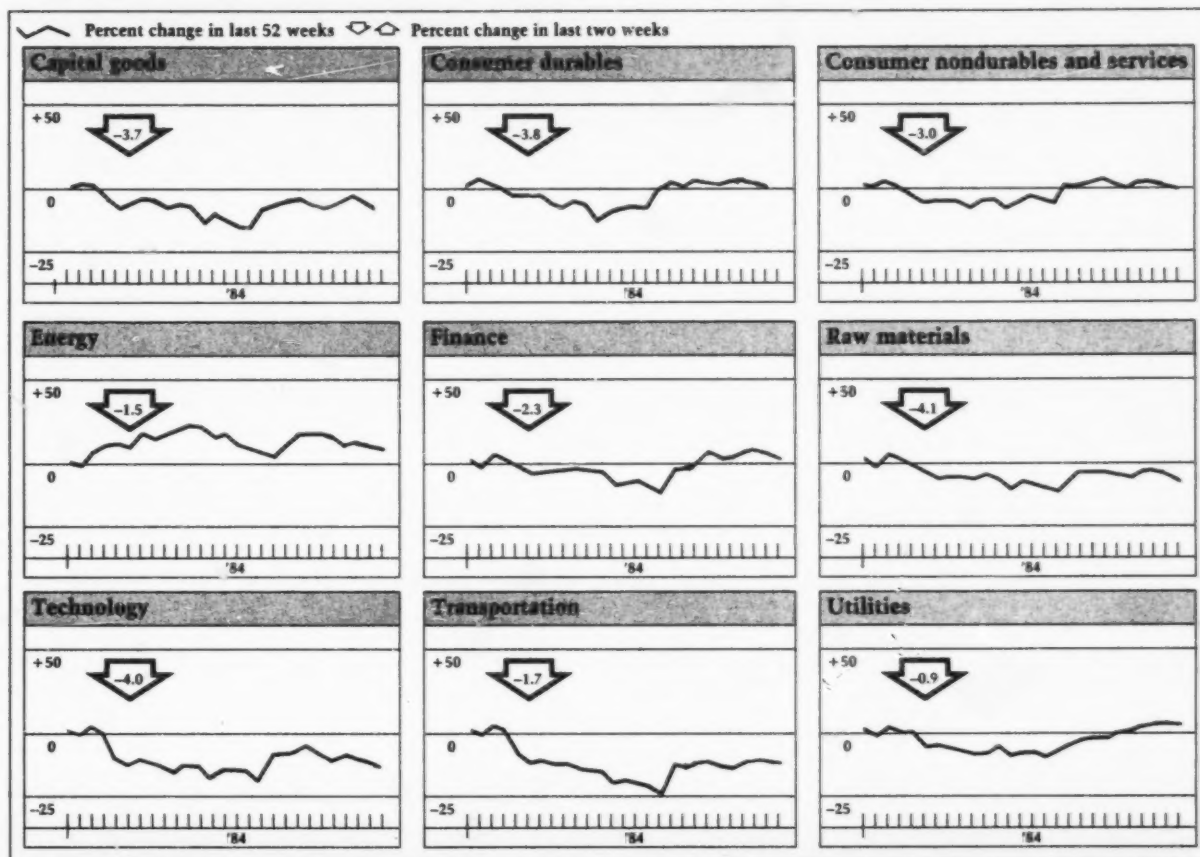
Kenneth Alcorn

Where The Action Is

Here we go again. Just when energy shares seem to be trading on the basis of depressed oil prices rather than merger speculation, along comes another blockbuster deal. This time, T. Boone Pickens is taking a shot at Phillips Petroleum. Although the latest round of takeover fever wasn't strong enough to help these stocks move into the advance column, the oils lost only 1.5% during the

last two weeks. During the same period, the Wilshire index fell 2.8% and five of the nine Wilshire sectors chalked up losses of 3% or more. Raw materials suffered the sharpest setback, with a 4.1% decline.

Utility stocks are still performing better than the rest of the market, however. These issues are off 0.9% for the recent two-week stretch and 0.3% for the four-week period.



What The Analysts Think

Good news for widows and orphans. Utility stocks are the only group not hit by a decline in 1984 earnings estimates during the past two- and four-week periods. Elsewhere,

the cuts were steepest in raw materials, consumer durables and technology—and these sectors led the market downward.

Forecasting the Forbes 400			Sector	Estimated 1984 EPS	% change in 1984 estimate	
Performance period	Average earnings per share	P/E			in 2 weeks	in 4 weeks
latest 12 months	\$3.14	10.6	1 Utilities	\$3.53	0.07%	0.18%
1984 estimates	3.86	9.5	2 Transportation	2.45	-0.08	-1.28
1985 estimates	4.43	7.6	3 Energy	2.59	-0.75	-1.27
			4 Finance	3.21	-0.97	-1.53
			5 Consumer nondurables	2.61	-0.98	-1.39
			6 Capital goods	2.75	-0.99	-1.30
			7 Technology	2.17	-1.06	-1.71
			8 Consumer durables	3.39	-1.07	-1.47
			9 Raw materials	2.52	-2.49	-3.89

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than \$0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 12/7/84. Prepared by Wilshire Associates, Santa Monica, Calif.; Zacks Investment Research, Inc., Chicago, Ill.

Kenneth Adams